BUILDING BC

Homeowner
Protection Office

annual report

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Table of Contents

Letters of Presentation 1

Message from the Chief Executive Officer 2

Organizational Overview. 4

Corporate Governance. 5

The Year in Review 6

Report on Performance 8
- Business Areas and Outputs 8
- Performance Measures, Targets and Results 14

HPO Publications. 19

Glossary of Terms 21

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Letters of Presentation

May 31, 2003

The Honourable Iona Campagnolo
Lieutenant-Governor of the Province of British Columbia

As the Minister of Community, Aboriginal and Women's Services and the Minister Responsible for Housing it is my honour to present to you the fifth annual report of the Homeowner Protection Office covering the period of April 1, 2002 through March 31, 2003.

Sincerely,

George Abbott

George Abbott
Minister of Community, Aboriginal and Women's Services and
Minister Responsible for Housing

May 31, 2003

Honourable George Abbott
Minister of Community, Aboriginal and Women's Services and
Minister Responsible for Housing
Province of British Columbia

Minister,

It is my pleasure, as the Chairperson of the Homeowner Protection Office, to submit to you the Homeowner Protection Office's annual report for the year ending March 31, 2003.

Sincerely,

Bob de Faye
Chairperson

Message from the Chief Executive Officer

Consumer confidence in the British Columbia housing market continued to build in 2002/2003. For the first time in four years, total housing starts in the province exceeded 20,000 new homes. This positive move forward is primarily the result of low interest rates and the release of pent-up demand for new housing. However, we know that this return in consumer confidence is also partly due to the efforts of the Homeowner Protection Office (HPO) and the residential construction industry to increase homeowner protection and improve the quality of residential construction in British Columbia through builder licensing, mandatory home warranty insurance, and research and education.

In a MarkTrend survey of owners of new homes and prospective buyers in the fall of 2002, 77% indicated home warranty insurance made a difference in their purchasing decision, including 24% who would not have purchased their home without it. The survey also reported that the majority of homeowners (93%) who purchased new homes built under the *Homeowner Protection Act* were satisfied with the quality of construction. These positive results are strong indicators that homebuyer trust in mandatory home warranty insurance, as well as homeowner satisfaction with the quality of construction, are helping to build consumer confidence. To further improve consumer confidence, we will continue to work with builders and other stakeholders to raise awareness about the licensing and insurance measures that have been put in place to protect consumers in their new home purchases.

Dan Maxwell,
Acting Chief
Executive Officer

Confidence is returning to the housing market and homeowners are better protected

Increases in housing starts are good for consumers, the industry, the HPO and the province. Housing is the largest single purchase the average British Columbian will make, and is also one of the province's major economic drivers. The residential construction industry's contribution to the provincial gross domestic production of about 3% is comparable to other major industries such as logging and utilities. The HPO is primarily self-funded through residential builder licensing fees and relies on a healthy housing construction market to afford the financial assistance programs for owners of leaky homes and the research and education programs aimed at improving the quality of residential construction. This healthy real estate market, combined with the results of repairs funded by the Homeowner's

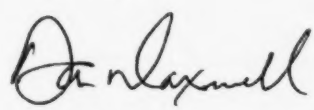
Reconstruction Loan Program, has helped put owners of once leaky homes in a stronger financial position. In 2002, more than half of owners who had completed repairs to water-damaged homes recovered 90% or more of the value of the cost of repairs in the assessed values of their homes. This positive outcome is testimony to the success of the HPO financial assistance programs, which were instrumental in assisting homeowners access the necessary funding to repair their homes.

While the increase in the housing market has had many positive affects over the last year, the downside is a growing skilled labour shortage. The HPO recognizes the importance of having a knowledgeable and well-trained workforce to ensure long-term quality construction in British Columbia. As such, it will work with the industry to increase homebuilder professionalism and skills by making education and training a major focus in the coming year. As part of this, the HPO will consult with the sector about possible next steps to raise the bar of professionalism in the industry and provide consumers a tool to distinguish better builders.

Confidence is returning to the housing market and homeowners are better protected. The provincial government recognizes the importance of continuing to provide safeguards for consumers of new homes through licensing and home warranty insurance, as well as preserving and protecting existing assistance to owners of leaky homes. This was evident in the completion of the HPO's Core Services Review with government making the decision to continue the HPO as a Crown corporation with a new Board of Directors representative of industry and consumer stakeholders. Over the coming year, the new Board will develop recommendations with respect to the future of the HPO.

The HPO looks forward to working with consumers and industry professionals to further improve consumer protection for homeowners and to ensure the long-term health of British Columbia's residential construction industry.

Sincerely,



Dan Maxwell
Acting Chief Executive Officer

For the first time in four years, total housing starts in the province exceeded 20,000 new homes.

Organizational Overview

Homeowner Protection Office

Who We Are

The Homeowner Protection Office (HPO) is the provincial Crown corporation established to strengthen consumer protection for new home buyers and improve the quality of residential construction in the province. The organization, currently with 34 staff, was formed in October 1998 under the authority of the *Homeowner Protection Act* (*Act*).

What We Do

The HPO is responsible for:

Licensing and Home Warranty Insurance

- Administering the residential builder and building envelope renovator licensing system province-wide
- Establishing the framework for and monitoring the performance of the mandatory, third-party home warranty insurance system

Research and Education

- Conducting research and education initiatives to benefit the residential construction industry and consumers

Financial Assistance to owners of leaky homes

- Administering the Homeowner's Reconstruction Loan Program
- Administering the PST Relief Grant on behalf of the province

Where We Are

The HPO is located in downtown Vancouver and has field staff responsible for ensuring compliance with licensing and home warranty insurance requirements on residential construction sites across the province.

Who We Serve

The HPO serves homebuyers, homeowners (particularly owners of leaky homes), developers, residential builders and building envelope renovators. In undertaking its activities the HPO also works closely with warranty providers, industry associations, architects, engineers, property managers, the legal community, research organizations, building inspectors, governments including local governments and Canada Mortgage and Housing Corporation, educational institutions, real estate professionals and financial institutions.

Our Strategic Foundation

The HPO's vision, mission and values form the basis of its planning, implementation and maintenance of its program areas.

Vision—To be a responsive Crown corporation, leading improvement in the quality of residential construction and an increase in homeowner protection in British Columbia.

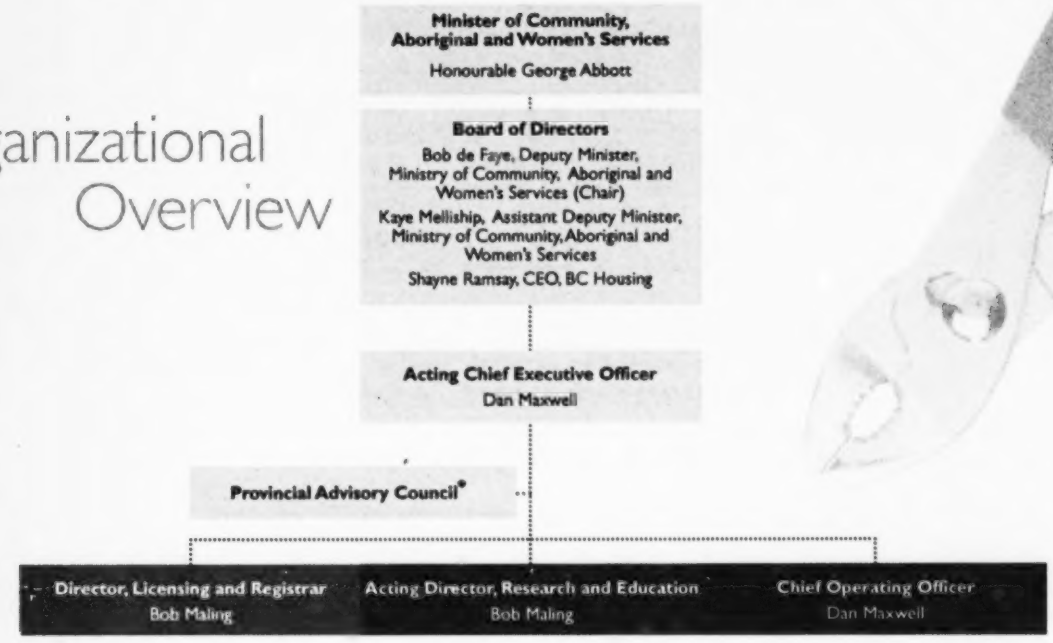
Mission—To help restore confidence in B.C.'s residential construction industry

Values—The HPO is committed to:

- Integrity
- Fairness
- Responsiveness
- Accountability
- Teamwork

CORPORATE GOVERNANCE

Organizational Overview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Honourable George Abbott
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Kaye Mellship, Assistant Deputy Minister, Ministry of Community, Aboriginal and Women's Services
Shayne Ramsay, CEO, BC Housing
Acting Chief Executive Officer
Dan Maxwell
Provincial Advisory Council*
Director, Licensing and Registrar
Bob Maling
Acting Director, Research and Education
Bob Maling
Chief Operating Officer
Dan Maxwell

Key Responsibilities of HPO Officers

Director, Licensing and Registrar

- license residential builders and building envelope renovators
- maintain a registry of licensed builders
- ensure compliance with licensing standards and regulations
- collect license fees
- monitor the third-party home warranty insurance system

Director, Research and Education

- support building science research
- support consumer and industry education
- advise government and City of Vancouver on amendments to building code
- support the establishment of guidelines for "best practices" for building

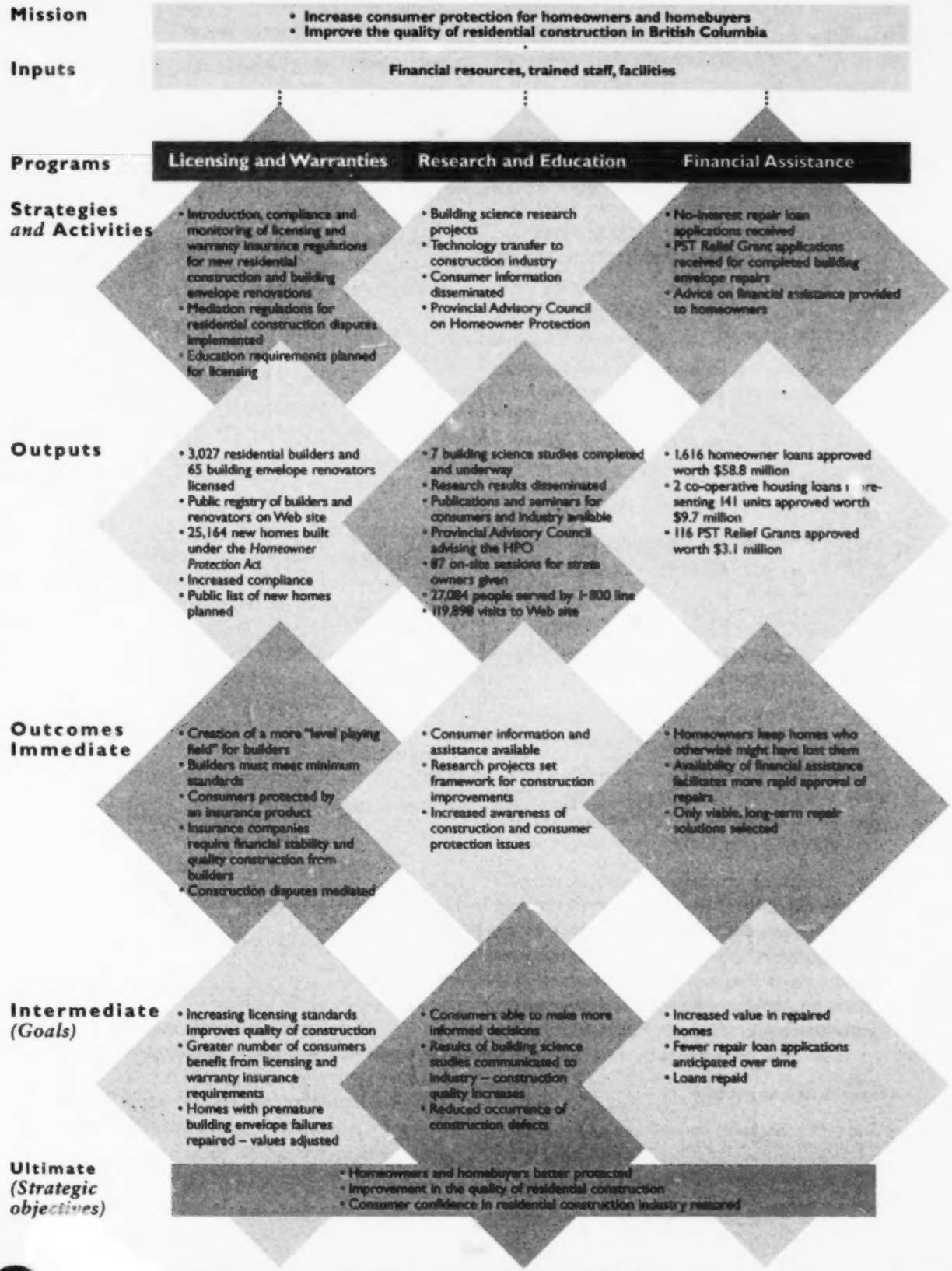
Chief Operating Officer

- administration of HPO
- manage the Reconstruction Fund and PST Relief Grant
- financial management of HPO including annual financial statements
- Board administration

* The *Homeowner Protection Act* provides for the establishment of a Provincial Advisory Council (PAC) on Homeowner Protection, which was formed in 1999. PAC provides policy advice to the HPO CEO regarding residential construction in B.C., research and education initiatives, and consumer information programs. The 14-member council includes representatives from consumer groups, architects, engineers, builders and developers, home warranty insurance companies, labour and local governments. PAC members represent the following organizations:

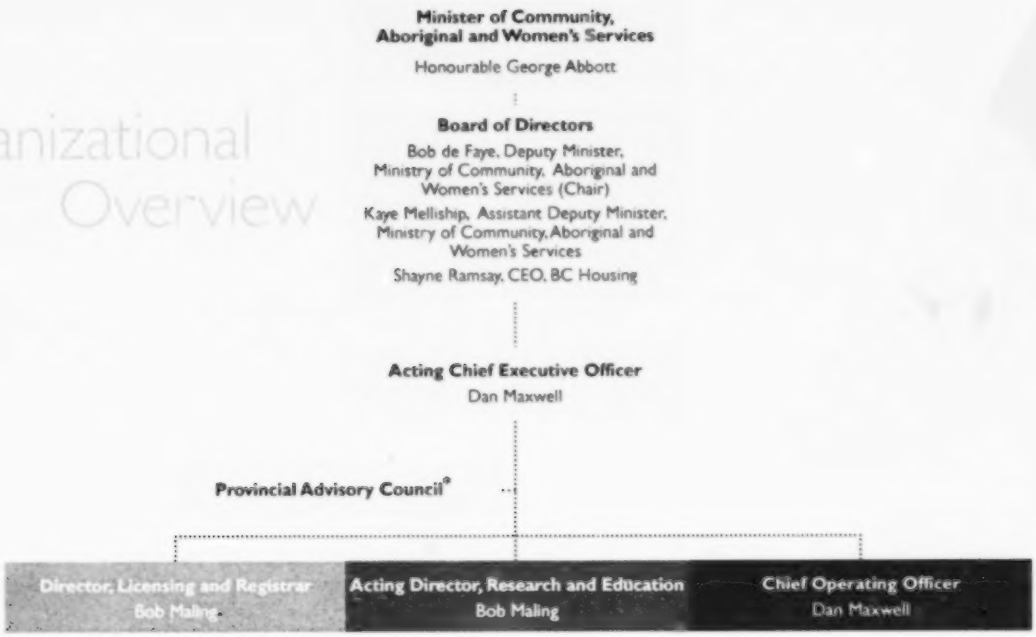
Architectural Institute of B.C.	City of Vancouver
B.C. Construction Association	Home Warranty Insurance Company
Union of British Columbia Municipalities	Urban Development Institute
Canadian Home Builders' Association of B.C.	Building Officials Association of B.C.
Association of Professional Engineers and Geoscientists	Independent Contractors and Businesses Association of B.C.
Condominium Home Owners' Association – 2 representatives	B.C. Federation of Labour – 2 representatives • International Union of Painters • Allied Trades and United Association of Plumbers and Pipefitters

The Year in Review


Mission
• Increase consumer protection for homeowners and homebuyers
• Improve the quality of residential construction in British Columbia
Inputs
Financial resources, trained staff, facilities
Programs
Licensing and Warranties
Research and Education
Financial Assistance
Strategies and Activities
• Introduction, compliance and monitoring of licensing and warranty insurance regulations for new residential construction and building envelope renovations
• Mediation regulations for residential construction disputes implemented
• Education requirements planned for licensing
• Building science research projects
• Technology transfer to construction industry
• Consumer information disseminated
• Provincial Advisory Council on Homeowner Protection
• No-interest repair loan applications received
• PST Relief Grant applications received for completed building envelope repairs
• Advice on financial assistance provided to homeowners
Outputs
• 3,027 residential builders and 65 building envelope renovators licensed
• Public registry of builders and renovators on Web site
• 25,164 new homes built under the Homeowner Protection Act
• Increased compliance
• Public list of new homes planned
• 7 building science studies completed and underway
• Research results disseminated
• Publications and seminars for consumers and industry available
• Provincial Advisory Council advising the HPO
• 87 on-site sessions for strata owners given
• 27,084 people served by 1-800 line
• 119,898 visits to Web site
• 1,616 homeowner loans approved worth $58.8 million
• 2 co-operative housing loans representing 141 units approved worth $9.7 million
• 116 PST Relief Grants approved worth $3.1 million
Outcomes Immediate
• Creation of a more "level playing field" for builders
• Builders must meet minimum standards
• Consumers protected by an insurance product
• Insurance companies require financial stability and quality construction from builders
• Construction disputes mediated
• Consumer information and assistance available
• Research projects set framework for construction improvements
• Increased awareness of construction and consumer protection issues
• Homeowners keep homes who otherwise might have lost them
• Availability of financial assistance facilitates more rapid approval of repairs
• Only viable, long-term repair solutions selected
Intermediate (Goals)
• Increasing licensing standards improves quality of construction
• Greater number of consumers benefit from licensing and warranty insurance requirements
• Homes with premature building envelope failures repaired – values adjusted
• Consumers able to make more informed decisions
• Results of building science studies communicated to industry – construction quality increases
• Reduced occurrence of construction defects
• Increased value in repaired homes
• Fewer repair loan applications anticipated over time
• Loans repaid
Ultimate (Strategic objectives)
• Homeowners and homebuyers better protected
• Improvement in the quality of residential construction
• Consumer confidence in residential construction industry restored

Corporate Governance

Organizational Overview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Bob Maling
Chief Operating Officer
Dan Maxwell

Key Responsibilities of HPO Officers

Director, Licensing and Registrar

- license residential builders and building envelope renovators
- maintain a registry of licensed builders
- ensure compliance with licensing standards and regulations
- collect license fees
- monitor the third-party home warranty insurance system

Director, Research and Education

- support building science research
- support consumer and industry education
- advise government and City of Vancouver on amendments to building code
- support the establishment of guidelines for "best practices" for building

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- administration of HPO
- manage the Reconstruction Fund and PST Relief Grant
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B.C. Construction Association

Union of British Columbia Municipalities

Canadian Home Builders' Association of B.C.

Association of Professional Engineers and Geoscientists

Condominium Home Owners' Association – 2 representatives

City of Vancouver

Home Warranty Insurance Company

Urban Development Institute

Building Officials Association of B.C.

Independent Contractors and Businesses Association of B.C.

B.C. Federation of Labour – 2 representatives
- International Union of Painters
- Allied Trades and United Association of Plumbers and Pipefitters

The Year in Review

Mission

- **Increase consumer protection for homeowners and homebuyers**
- **Improve the quality of residential construction in British Columbia**

Inputs

Financial resources, trained staff, facilities

Programs	**Licensing and Warranties**	**Research and Education**	**Financial Assistance**
Strategies *and* Activities	• Introduction, compliance and monitoring of licensing and warranty insurance regulations for new residential construction and building envelope renovations • Mediation regulations for residential construction disputes implemented • Education requirements planned for licensing	• Building science research projects • Technology transfer to construction industry • Consumer information disseminated • Provincial Advisory Council on Homeowner Protection	• No-interest repair loan applications received • PST Relief Grant applications received for completed building envelope repairs • Advice on financial assistance provided to homeowners
Outputs	• 3,027 residential builders and 65 building envelope renovators licensed • Public registry of builders and renovators on Web site • 25,164 new homes built under the *Homeowner Protection Act* • Increased compliance • Public list of new homes planned	• 7 building science studies completed and underway • Research results disseminated • Publications and seminars for consumers and industry available • Provincial Advisory Council advising the HPO • 87 on-site sessions for strata owners given • 27,084 people served by 1-800 line • 119,898 visits to Web site	• 1,616 homeowner loans approved worth $58.8 million • 2 co-operative housing loans representing 141 units approved worth $9.7 million • 116 PST Relief Grants approved worth $3.1 million
Outcomes Immediate	• Creation of a more "level playing field" for builders • Builders must meet minimum standards • Consumers protected by an insurance product • Insurance companies require financial stability and quality construction from builders • Construction disputes mediated	• Consumer information and assistance available • Research projects set framework for construction improvements • Increased awareness of construction and consumer protection issues	• Homeowners keep homes who otherwise might have lost them • Availability of financial assistance facilitates more rapid approval of repairs • Only viable, long-term repair solutions selected
Intermediate *(Goals)*	• Increasing licensing standards improves quality of construction • Greater number of consumers benefit from licensing and warranty insurance requirements • Homes with premature building envelope failures repaired – values adjusted	• Consumers able to make more informed decisions • Results of building science studies communicated to industry – construction quality increases • Reduced occurrence of construction defects	• Increased value in repaired homes • Fewer repair loan applications anticipated over time • Loans repaid

Ultimate *(Strategic objectives)*

- **Homeowners and homebuyers better protected**
- **Improvement in the quality of residential construction**
- **Consumer confidence in residential construction industry restored**

Now in its fifth year, the Homeowner Protection Office (HPO) continues to work with industry and consumers to increase homeowner protection and improve the quality of residential construction in British Columbia with reported success.

Performance and Financial Results

- The HPO was successful in carrying out the activities and strategies set out in its 2002-05 Performance Plan. Six of the HPO's 10 performance measures met or exceeded its targets this year. Baseline data was collected for four of the performance measures with results available in 2003-04.
- The HPO is self-sustaining on a year-over-year basis from its own revenues excluding the Reconstruction Loan Program. This year, the HPO had a net overall income of $3.5 million.

Licensing and Home Warranty Insurance

- There were 3,027 licensed residential builders as of March 31, 2003, an increase of 5% from the previous year.
- The number of building envelope renovators licensed by the HPO decreased slightly from 74 to 65 over the last year.
- Since July 1999 when the home warranty insurance provisions of the *Homeowner Protection Act (Act)* were introduced, more than 51,511 new homes have been covered by mandatory home warranty insurance, an addition of 20,634 new homes over the last year.
- HPO compliance efforts and modifications to the owner-builder exemption application process continue to reduce the occurrences of abuse by unlicensed builders attempting to avoid licensing and home warranty insurance requirements. Owner-built homes still account for under 30% of all new single detached homes built in British Columbia.

Research and Education

- The HPO continues to facilitate and expand B.C.'s focused research and education by using its resources to leverage substantial contributions from other partners. This year, the HPO's financial commitments to research and education totaled $143,000 while our partners contributed $548,000 to fund seven research projects.
- The HPO worked with the Canadian Home Builders' Association to expand the Building Envelope Solutions Theory and Practice course to educational institutions in the Lower Mainland and Victoria. As well, the results of three HPO-funded research projects were profiled at the 9th Canadian Conference on Building Science and Technology, hosted by the National Building Envelope Council and BC Building Envelope Council in Vancouver.
- A MarkTend research survey of consumer awareness and satisfaction with builder licensing and the 2-5-10 year home warranty insurance on new homes found that 93% of homeowners surveyed were satisfied with their home's construction; 83% were satisfied with the protection provided by home warranty insurance on their home; and 77% indicated that warranty insurance made a difference in their purchasing decision, including 24% who would not have purchased their home without it. The results of this survey have provided the HPO with a knowledge base to undertake strategies to further increase awareness about consumer protection provisions set out in the *Act*.

Financial Assistance

- The HPO estimates there are 65,000 homes in B.C. that have been affected by premature building envelope failure, which will cost a total of $1.5 billion to repair. The demand for Homeowner's Reconstruction Loans, as reflected in new applications, has continued to decline for the second straight year.
- Repaired residential buildings that once suffered from premature building envelope failure are recovering their market values. More than half of the owners who had completed repairs to their water-damaged homes were able to recoup the value of the cost of repairs in the assessed values of their homes.

Report on Performance

Bob Maling, Registrar, Director of Licensing and Acting Director of Research and Education

BUSINESS AREAS AND OUTPUTS

Licensing and Home Warranty Insurance

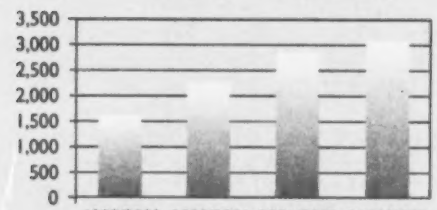
The Homeowner Protection Office (HPO) is responsible for licensing residential builders and monitoring the performance of the mandatory, third-party home warranty insurance system for new home construction and building envelope renovations. These licensing and warranty insurance provisions work in tandem to ensure that builders meet minimum standards and, if a construction defect occurs, the homeowner is protected by Canada's strongest home warranty insurance. Through these initiatives the HPO is helping raise the standard and level of professionalism in the industry, increasing builder accountability and protecting consumers.

Licensing — Under the *Homeowner Protection Act (Act)* all residential builders must be licensed by the HPO and arrange for home warranty insurance prior to obtaining a building permit. Similarly, contractors who act as building envelope renovators are also required to be licensed by the HPO and provide home warranty insurance on building envelope renovations.

A registry of licensed residential builders and building envelope renovators is updated daily on the HPO Web site.

Over 3,000 residential builders are licensed with the HPO.

Licensed Residential Builders



As of March 31st of each year.

2002–03 Licensing Highlights *as of March 31, 2003*

- 3,027 Licensed Residential Builders
- 65 Licensed Building Envelope Renovators

Home Warranty Insurance — In B.C. the mandatory minimum home warranty insurance coverage on new homes and residential building envelope renovations is set by legislation. As such, all new homes constructed by licensed residential builders are now covered by the strongest construction defect warranty in Canada, which includes 2 years on labour and materials, 5 years on the building envelope and 10 years on structure. In addition, applicable residential building envelope renovations are covered by home warranty insurance, which includes 2 years on labour and materials, and if 60% or more of the cladding surface on any face of the building is replaced, a 5-year water penetration warranty is also required.

20,634 more new homes have home warranty insurance.

This home warranty insurance may only be sold by insurance companies that are approved by the Office of the Superintendent of Financial Institutions (OSFI) and by B.C.'s Financial Institutions Commission (FICOM). Currently there are five companies offering home warranty insurance in British Columbia.

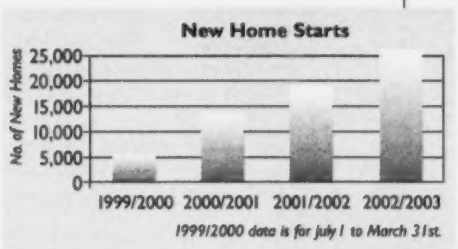
2002–03 Residential Construction Highlights *as of March 31, 2003*

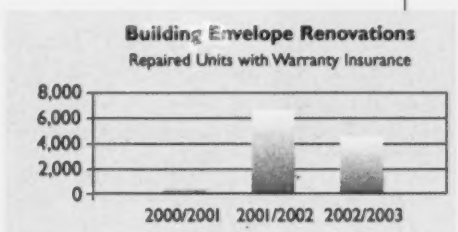
- 20,634 new homes enrolled in home warranty insurance — an increase of 27% over the previous fiscal year:
  - approximately 38% were single detached dwellings
  - approximately 62% were multi-unit homes
- 64,026 new homes satisfy the consumer protection requirements since the *Homeowner Protection Act* regulations were introduced in July 1999.
- 4,643 homes requiring building envelope renovations enrolled in renovation warranty insurance.
- 12,045 homes enrolled in renovation warranty insurance since the inception of the building envelope renovation regulations in October 2000.

New Home Starts and Building Envelope Renovations Under the *Homeowner Protection Act*

	2000/2001	2001/2002	2002/2003	Cumulative: July 1, 1999-March 31, 2003
Coastal Multi-Unit Dwellings (units)[1]	3,524	6,496	9,534	20,329
Other Dwellings (units)[2]	7,018	9,793	11,100	31,182
Owner-Builder Exemptions (single detached homes)	2,504	2,060	2,968	9,018
HPO Warranty Exemption (multi-unit)	892	693	1,562	3,497
Total Starts	**13,938**	**19,042**	**25,164**	**64,026**
Building Envelope Renovations (units)[3]	**614**	**6,788**	**4,643**	**12,045**

1. Units built in the coastal climate zone which attract a $750 reconstruction fee and a $25 HPO licensing fee.
2. Includes detached dwellings throughout B.C. as well as multi-unit dwellings outside of the coastal climate zone, which attract only the $25 per unit HPO licensing fee.
3. Building envelope renovations attract a $25 per unit HPO licensing fee. Cumulative total is as of October 1, 2000.





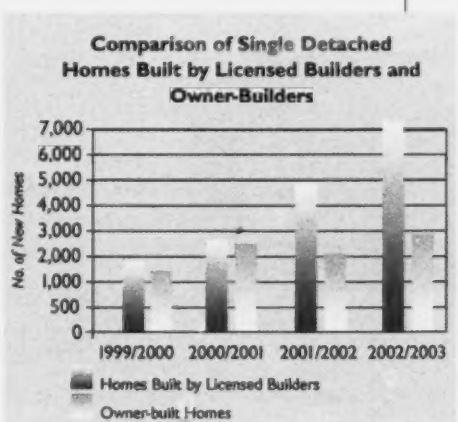
Compliance — Individuals building a detached home for their own personal use are neither required to be licensed nor provide home warranty insurance. However, owner-builders are subject to the statutory protection provisions of the *Act* to ensure consumer protection if the home is sold within a 10-year period. In order to obtain a building permit owner-builders are required to complete an Owner Builder Declaration and Disclosure Notice, which is vetted by the HPO.

HPO compliance officers monitor this exemption and investigate false and misleading claims to ensure that landowners and unscrupulous builders do not abuse the owner-builder exemption to avoid licensing and home warranty insurance requirements put in place to protect consumers.

Owner-builder declarations are monitored

2002–03 Compliance Highlights *as of March 31, 2003*

- 459 additional builders licensed as a result of compliance efforts since the regulations came into force in July 1999.
- 1,389 additional new home projects covered by home warranty insurance as a result of compliance efforts since the regulations were introduced in July 1999.



Report on Performance cont'd

Research and Education

The *Homeowner Protection Act* sets out a mandate for the HPO to conduct research and education to improve the quality of residential construction for the benefit of both the residential construction industry and consumers. Research and education initiatives cover three areas: new and improved technologies, education and training and consumer information.

John Bell, Manager Research and Education

New and Improved Technology—Building science research projects are carried out by the HPO in collaboration with partners in the residential construction industry to address issues and questions of particular relevance in British Columbia. The goal of these research initiatives, when combined with education and training, is to bring about an improvement in the quality of residential construction.

This year, the HPO had seven building science research projects underway or completed during the fiscal year. These projects represent an HPO financial commitment of $143,000. Successful partnerships with Canada Mortgage and Housing Corporation, BC Housing, BCIT as well as other industry research partners resulted in a total commitment of $691,000 to fund these projects.

2002–03 Building Science Research Highlights

Projects completed (available on Web site):

- Water Penetration Resistance of Windows
- Earthquake Testing of Rainscreen Stucco Systems for B.C. Wood Frame Construction
- Building Envelope Research Bibliography
- Building Envelope Test Hut Phase II (draft report)

Projects underway:

- Monitoring Performance of Rainscreen Wall Assemblies
- External Moisture Control – Defining Performance of Water Resistive Barriers
- Performance of Mass Concrete Buildings

Successful industry partnerships fund research projects

Education and Training for Industry—Workshops, seminars, publications and other knowledge tools are developed to assist the industry implement new and improved building technologies. The goal is for a greater number of builders to have access to the latest research results, improved technology and new skills. This technology transfer will raise construction standards and practices, thereby bringing about an improvement in the quality of residential construction.

2002–03 Residential Construction Highlights as of March 31, 2003

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  - approximately 62% were multi-unit homes
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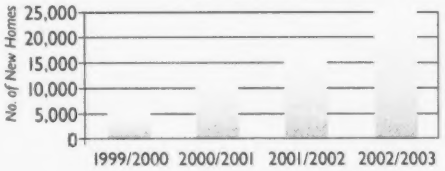
Building Envelope Renovations (units)[3]	**614**	**6,788**	**4,643**	**12,045**

1. Units built in the coastal climate zone which attract a $750 reconstruction fee and a $25 HPO licensing fee.
2. Includes detached dwellings throughout B.C. as well as multi-unit dwellings outside of the coastal climate zone, which attract only the $25 per unit HPO licensing fee.
3. Building envelope renovations attract a $25 per unit HPO licensing fee. Cumulative total is as of October 1, 2000.

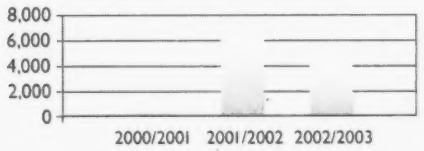
New Home Starts



1999/2000 data is for July 1 to March 31st.

Building Envelope Renovations

Repaired Units with Warranty Insurance



Compliance — Individuals building a detached home for their own personal use are neither required to be licensed nor provide home warranty insurance. However, owner-builders are subject to the statutory protection provisions of the *Act* to ensure consumer protection if the home is sold within a 10-year period. In order to obtain a building permit owner-builders are required to complete an Owner Builder Declaration and Disclosure Notice, which is vetted by the HPO.

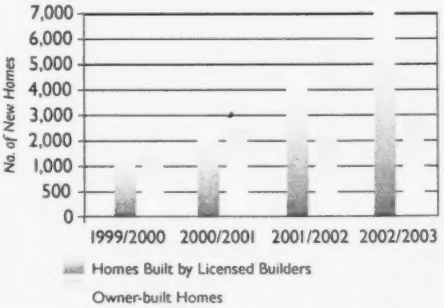
Owner-builder declarations are monitored

HPO compliance officers monitor this exemption and investigate false and misleading claims to ensure that landowners and unscrupulous builders do not abuse the owner-builder exemption to avoid licensing and home warranty insurance requirements put in place to protect consumers.

2002–03 Compliance Highlights as of March 31, 2003

- 459 additional builders licensed as a result of compliance efforts since the regulations came into force in July 1999.
- 1,389 additional new home projects covered by home warranty insurance as a result of compliance efforts since the regulations were introduced in July 1999.

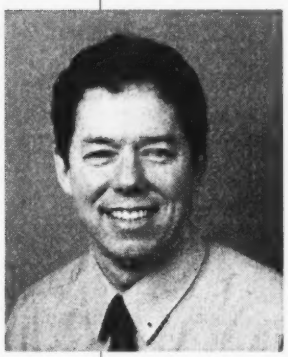
Comparison of Single Detached Homes Built by Licensed Builders and Owner-Builders



Report on Performance cont'd

Research and Education

The *Homeowner Protection Act* sets out a mandate for the HPO to conduct research and education to improve the quality of residential construction for the benefit of both the residential construction industry and consumers. Research and education initiatives cover three areas: new and improved technologies, education and training and consumer information.



John Bell, Manager Research and Education

New and Improved Technology — Building science research projects are carried out by the HPO in collaboration with partners in the residential construction industry to address issues and questions of particular relevance in British Columbia. The goal of these research initiatives, when combined with education and training, is to bring about an improvement in the quality of residential construction.

This year, the HPO had seven building science research projects underway or completed during the fiscal year. These projects represent an HPO financial commitment of $143,000. Successful partnerships with Canada Mortgage and Housing Corporation, BC Housing, BCIT as well as other industry research partners resulted in a total commitment of $691,000 to fund these projects.

2002–03 Building Science Research Highlights

Projects completed (available on Web site):

- Water Penetration Resistance of Windows
- Earthquake Testing of Rainscreen Stucco Systems for B.C. Wood Frame Construction
- Building Envelope Research Bibliography
- Building Envelope Test Hut Phase II (draft report)

Projects underway:

- Monitoring Performance of Rainscreen Wall Assemblies
- External Moisture Control – Defining Performance of Water Resistive Barriers
- Performance of Mass Concrete Buildings

Successful industry partnerships fund research projects

Education and Training for Industry — Workshops, seminars, publications and other knowledge tools are developed to assist the industry implement new and improved building technologies. The goal is for a greater number of builders to have access to the latest research results, improved technology and new skills. This technology transfer will raise construction standards and practices, thereby bringing about an improvement in the quality of residential construction.

2002–03 Education and Training Highlights

- Through participation with industry associations and organizations, HPO-funded research was profiled at nine seminars.
- Expanded delivery of HPO, CMHC and CHBA-BC funded Building Envelope Solutions course to include Lower Mainland and Victoria.
- Development of on-line resource guide to provide a one-stop source of information on education and training opportunities for the residential construction industry in B.C.

The industry now has increased access to the Building Envelope Solutions course.

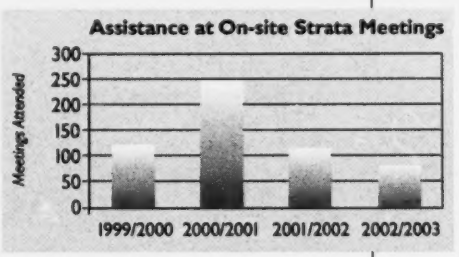
Consumer Information—The HPO provides a wide range of consumer information to assist homebuyers make informed purchasing decisions, and to assist owners of leaky homes in undertaking needed repairs to their buildings. The goal of these initiatives is to bring about an increase in consumer confidence in new and rehabilitated homes through raising the level of awareness of consumer protection measures that are in place in British Columbia.

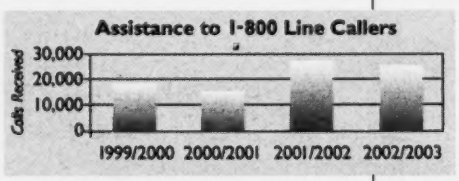
A survey was carried out in the fall of 2002 to identify consumer awareness and satisfaction levels with the licensing and mandatory third-party warranty insurance system. Results of the survey of new home owners indicated that: 93% are satisfied with the quality of their home's construction, 83% are satisfied with the protection provided by warranty insurance on their homes and 77% indicate warranty insurance made a difference in their purchasing decision (including 24% who would not have purchased their home without it). The results of this survey will be used to develop a strategy in 2003 aimed at increasing awareness levels of the protections available to consumers in B.C.

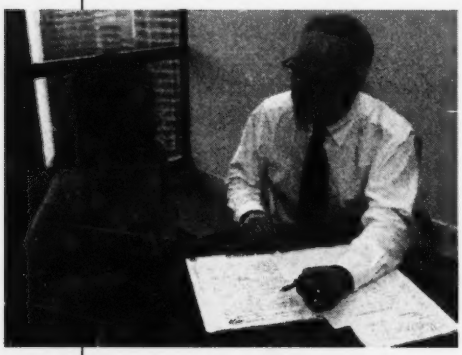
Consumer information is provided at home shows province-wide.

2002–03 Consumer Information Highlights

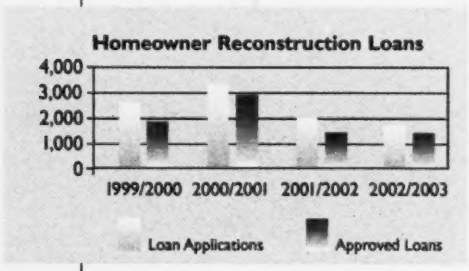
- HPO staff attended 87 on-site strata meetings to provide owners with information on financial assistance programs for the repair of leaky homes.
- 27,084 callers were assisted through the HPO's toll-free information line.
- 119,898 website visitors obtained information on HPO programs.
- HPO staff were on hand to answer questions at 25 consumer events throughout the province.
- The HPO continued to meet the high demand for key publications, including:
  - Buying a New Home: A Consumer Protection Guide
  - Options for Resolving Residential Construction Disputes
  - Managing Major Repairs: A Condominium Owner's Manual
  - Bulletins on a variety of topics including home warranties, owner-built homes, the Homeowner's Reconstruction Loan and PST Relief Grant programs, and requirements for building envelope renovations.

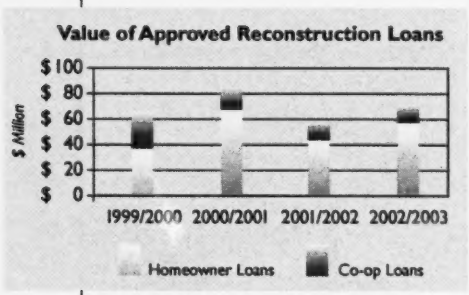


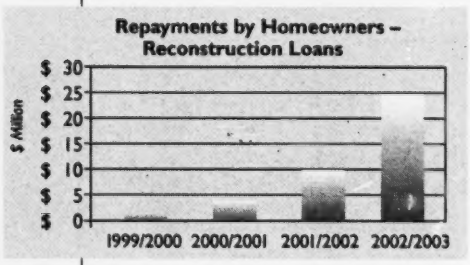




Loans Manager, Ken Rehill reviews the unique financial situation of each owner to determine eligibility.







Financial Assistance

The HPO provides financial assistance to owners of leaky homes in the form of the Homeowner's Reconstruction Loan and the PST Relief Grant programs.

Homeowner's Reconstruction Loan Program — This program provides no-interest loans to eligible owners of leaky homes who do not have enough savings or do not qualify for a conventional loan to pay for their building envelope renovations. The goal of the program is to ensure that owners do not lose their homes due to the cost of their building envelope renovations.

The loans cover both the cost of the repair and any related legal expenses. In most cases the homeowner's lending institution provides the principal on the loan. The HPO pays the interest on the loan to the lending institution on behalf of the owner. The homeowner makes monthly, principal-only payments on the loan to their lending institution. These payments are set at affordable levels by the HPO through individual consultations with the homeowner. In cases where the minimum payment of $50 is not affordable, in particular for seniors on fixed incomes, a deferred payment loan can be arranged. A deferred payment loan allows the homeowner to receive the full amount required to repair their home, however, they do not have to make payments for as long as they live in the home.

In 2000 the Government of Canada, through the Canada Mortgage and Housing Corporation, agreed to provide a contribution of $27.7 million as the loan program incurs expenditures. Since 2000, the HPO has received $23.2 million from the federal government for Loans Program expenditures.

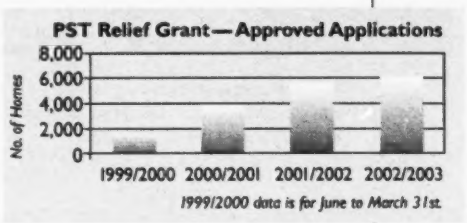
2002–03 Loan Program Highlights

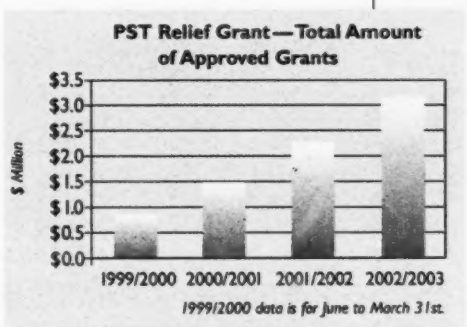
- 1,616 homeowner loans were approved with a total value of $58.8 million. The average homeowner loan was $25,642 as of March 31, 2003.
- Deferred payment loans represented 11% of no-interest loans totaling more than $6.7 million in financial assistance.
- Loan repayments totaling $24.7 million were made by homeowners during the year.
- The HPO approved two housing co-operative loans representing 141 units. The total value of co-op loans approved was $9.7 million, which includes increases to loans from past years. The average per unit loan was $33,930 as of March 31, 2003.
- Since the HPO's inception in 1998, 8,478 homeowner loans and 34 co-op loans (representing 1,989 units) have been approved totaling $285 million in financial assistance.

PST Relief Grant Program—This program is intended to provide some financial relief to owners of leaky homes undertaking necessary repairs. The program, which is administered by the HPO on behalf of the province, provides a rebate on the completed building envelope renovations, and is available to owners of condominiums, townhouses, detached homes and housing co-operatives. Generally, about 40% of all renovation costs are subject to PST.

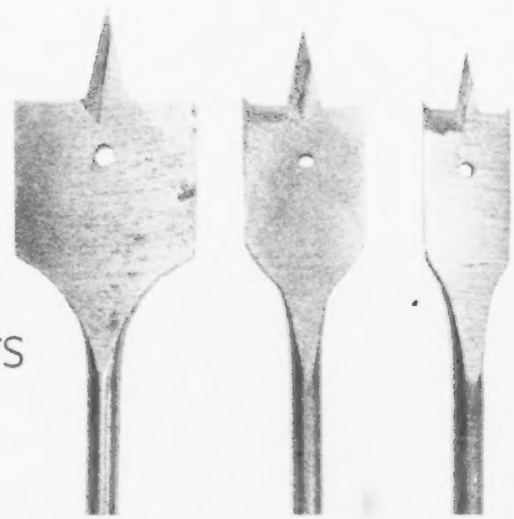
2002–03 PST Relief Grant Highlights

- 116 applications representing 6,137 homes were approved for PST Relief Grants totaling $3.1 million.
- Since the PST Relief Grant was introduced in 1999, $7.5 million in grants to owners in 17,518 homes has been approved.





The PST Relief Grant provides tax relief for owners of homes with completed building envelope renovations.



Tax relief for homeowners

REPORT ON PERFORMANCE CONT'D

Performance Measures, Targets and Results

Ten performance measures have been developed to track progress towards meeting key goals and objectives for the HPO. Measures include satisfaction ratings as well as indicators of effectiveness and responsiveness in each program area. The following section provides results for the HPO's fiscal 2002 performance measures in comparison to current targets as set out in the 2002-2005 Service Plan, and where available, historical and benchmark performance.

Homeowner Satisfaction – Home Warranty Insurance

Target 2002-03	Collect baseline data
Actual 2002-03	**83%**
Future Targets	
2003-04	80% or higher
2004-05	85% or higher
2005-06	85% or higher

This measure tracks homeowner satisfaction with the protection provided by home warranty insurance on their new home. Baseline data was obtained from a fall 2002 survey of homeowners.

Statistically, the results of this survey have a 95% confidence level and are considered accurate to within 5 percentage points.

Levels of homeowner satisfaction were consistent by housing type, i.e., those with single detached homes vs. condominiums, and by region of the province. Younger buyers (34 years and under) showed a higher degree of satisfaction with their home warranty insurance at 91%.

With the July 1999 introduction of home warranty insurance requirements, 2002-03 data reflects homeowners who are at the initial years of coverage. Over time, data will include homeowners with policies at all years of coverage which includes, at a minimum, 2 years on materials and labour, 5 years on building envelope and 10 years on structure.

Homeowners with Home Warranty Insurance Claims

Target 2002-03	Collect baseline data
Actual 2002-03	**5%**
Future Targets	
2003-04	under 10%
2004-05	under 10%
2005-06	under 10%

An indicator of the quality of residential construction

This measure is an indicator of the quality of residential construction in British Columbia in terms of the number of claims made by homeowners under their home warranty insurance coverage. The number of claims is compared to the number of homes enrolled during the specified period.

Baseline data on claims will not be available from warranty providers until 2003-04. In the interim results from the homeowner satisfaction survey will be used as proxy data, specifically the percentage of homeowners who have experienced a problem with their homes' workmanship, materials or structure, and involved their home warranty insurance company in resolving the construction defect.

The claims process is set out in the *Homeowner Protection Act*. The homeowner must provide the warranty provider and residential builder written notice in reasonable detail which provides particulars of any specific defects covered by the home warranty insurance. Upon receipt of a notice of claim, a warranty provider must make reasonable efforts to respond, evaluate the claim and schedule any required repairs. During the evaluation, the warranty provider determines the validity of the claim, and notifies the owner of the reasons for the decision.

In Ontario, the Ontario New Home Warranty Program (ONHWP) experienced a claims rate of 1.4% in 2001, down from a high of 2.7% in 1998. Conciliations and claim inspections were carried out on 4.2% of homes enrolled in 2001.

Investigations Resulting in Voluntary Compliance

Target 2002-03	70% or higher
Actual 2001-02	68%
Actual 2002-03	**76%**
Future Targets	
2003-04	72% or higher
2004-05	75% or higher
2005-06	80% or higher

This measure focuses on the effectiveness of HPO compliance activity in reducing abuse of the owner-builder exemption from licensing and home warranty insurance requirements as well as other violations of the *Homeowner Protection Act*. A target of 70% means that 70% of investigations by compliance staff confirmed and/or resulted in voluntary compliance with the *Homeowner Protection Act*.

For example, voluntary owner-builder compliance means that the owner either met the owner-builder requirements under the *Act*, or chose to become or hired a licensed residential builder.

Investigations by compliance staff typically involve visits to construction sites as well as follow-up site visits, calls or enquiries as needed. The emphasis of compliance activity is to convince unlicensed builders to become licensed and arrange for home warranty insurance on the new home.

Timeliness of Licensing Decisions

Target 2002-03	Under 5 business days
Actual 2001-02	4.0 business days
Actual 2002-03	**3.1 business days**
Future Targets	
2003-04	Under 5 business days
2004-05	Under 5 business days
2005-06	Under 5 business days

This is a measure of the HPO's responsiveness in making residential builder and building envelope renovator licensing decisions. Specific targets are set to ensure that HPO licensing decisions are made quickly, thus avoiding unnecessary and potentially costly delays for residential builders.

The licensing approval process typically involves verification of company information, acceptance with a home warranty insurance provider and past residential construction activity.

HPO licensing timelines compare well with similar or related organizations:

- Washington State contractor registration—5 days or more, online renewals can be processed the same day.
- Maryland Home Builder Registration (similar requirements as B.C.)—5 to 7 days.
- Ontario New Home Warranty Program builder registration—30 days.

HPO licensing timelines compare well with similar or related organizations

Performance Measures, Targets and Results cont'd

Homebuyer Awareness

Target 2002-03	Collect baseline data
Actual 2002-03	**73% for licensing 45% for home warranty insurance**
Future Targets	
2003-04	75% for licensing 50% for home warranty insurance
2004-05	80% for licensing 55% for home warranty insurance
2005-06	85% for licensing 65% for home warranty insurance

This measure tracks prospective homebuyer awareness of the consumer protection measures in place in B.C., specifically licensing of residential builders and warranty insurance requirements.

Baseline data for this measure was obtained through a survey of prospective new homebuyers in the fall of 2002. The results have a 95% confidence level and are considered accurate within 5 percentage points.

Awareness levels of *licensing* requirements did not vary significantly across different groups, e.g., respondents' age, region of province, or first-time buyers, while prospective buyers of single detached homes showed a higher level of awareness compared to condo buyers.

Awareness levels of *home warranty insurance* requirements were more variable, for example, with lower levels of awareness among first-time buyers and younger buyers, and slightly higher levels of awareness among prospective buyers of condos.

The HPO is working to increase homebuyer awareness of licensing and home warranty insurance requirements.

Reconstruction Loan Default Rate

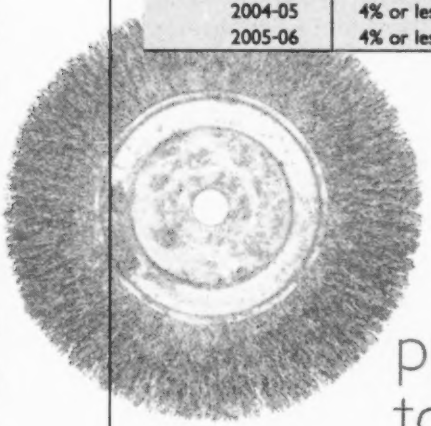
Target 2002-03	4% or less
Actual 2001-02	0.80%
Actual 2002-03	**0.85%**
Future Targets	
2003-04	4% or less
2004-05	4% or less
2005-06	4% or less

This measure tracks the effectiveness of the Homeowner's Reconstruction Loan program to help ensure that homeowners do not lose their homes as a result of building envelope renovation costs.

This measure compares the number of reconstruction loans in default to the total number of loans issued through the program.

The Reconstruction Loan Program provides no-interest loans to owners of leaky homes who would not otherwise be able to obtain financing for repair costs, e.g., may be experiencing an overall high debt to equity ratio. Loan recipients pay affordable principle-only monthly payments with a minimum payment of $50 per month.

The Reconstruction Loan Program default rate is slightly higher than the default rate of all residential housing loans or mortgages for B.C. and Canada which were 0.50% and 0.38% respectively as of January, 2003. (Source: Canadian Bankers Association)



providing no-interest loans to owners of leaky homes

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providing no-interest loans to owners of leaky homes

Recovery of Homes Values Following Building Envelope Renovations

Target 2002-03	Collect baseline data
Actual 2002-03	**55%**
Future Targets	
2003-04	50% or more
2004-05	50% or more
2005-06	55% or more

analysing data for nearly 4,000 homes with repair loans in over 230 buildings

This measure tracks the improvement of assessed values of homes following the completion of building envelope renovations. It is calculated as the percentage of homes that have recovered 90% or more of the value of the cost of repairs in the assessed values of their homes.

The analysis is based on data for nearly 4,000 homes with repair loans in over 230 buildings in the coastal climate zone of B.C.

According to the B.C. Assessment Authority, assessed values are adjusted on an annual basis to reflect changes in market values of the homes, and takes into account such factors as property improvements or renovations and sales for comparable properties in the neighbourhood.

Assessment data offers the opportunity to track changes in home values including those that have not been put on the market or sold by owners.

Among the homes analyzed for this measure, the average pre-repair home value has risen from $104,500 to $126,100 post repair. The analysis is based on 2002 assessed values and includes all homes with completed building envelope renovations under the Homeowner's Reconstruction Loan program since 1998.

It should be noted that annual reporting for this measure includes a six-month month time lag due to the annual property assessment cycle, i.e., assessed values as of July 1 are used in the calculation.

Leveraging of Additional Research and Education Funding

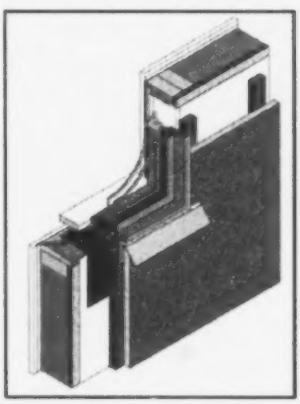
Target 2002-03	At least twice the amount invested by HPO leveraged through partnerships
Actual 2001-02	HPO investment represented 22% of total project funding
Actual 2002-03	**HPO investment represented 21% of total project funding**
Future Targets	
2003-04	For each year, at least twice amount invested by HPO leveraged through partnerships
2004-05	
2005-06	

This measure monitors the effectiveness of the HPO in leveraging additional resources for research and education initiatives with industry partners.

The target is to leverage at least twice the amount invested by the HPO through partnerships for projects that are completed or underway during the fiscal year.

Projects that were completed or underway represented an HPO funding commitment of $143,000. Our partners committed an additional $548,000 to these projects for a total financial commitment of $691,000.

The principal funding partner is Canada Mortgage and Housing Corporation. Other partners include BC Housing, industry associations, manufacturers and educational institutions.



Partnerships allow for pooled funding for projects like the Water Penetration Resistance of Windows study.

Performance Measures, Targets and Results cont'd

Research Results Disseminated

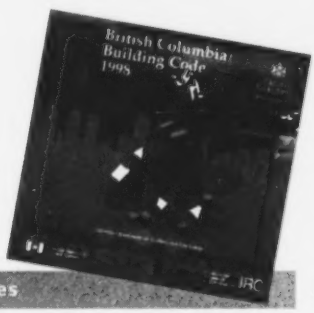
Target 2002-03 and 2003-04	During this 2-year cycle, 1 major symposium or publication and 12 educational sessions
Actual 2001-02	HPO and its partners presented B.C.'s first 1-day Building Envelope Research Symposium profiling all HPO research projects carried out to date.
Actual 2002-03	**HPO-funded research profiled at 9 industry educational sessions; 3 research papers with HPO funding profiled at 9th Canadian Conference on Building Science and Technology**
Future Targets 2003-04 2004-05 2005-06	During this 2-year cycle, 1 major symposium or publication and 12 educational sessions.

Recognizing the critical role of disseminating research results to industry and consumers, this measure focuses on the HPO's participation in major research symposia or publications, and the delivery of educational sessions.

Educational sessions are generally sponsored by industry associations and organizations that best know how to most effectively disseminate technical information to their members.

The HPO also continued to participate in Building Envelope Research Consortium, BC Building Envelope Council (BCBEC), and Canadian Home Builder Association technical and education & training committees as a means of disseminating research results.

Industry representatives joined forces to organize the 9th Canadian Conference on Building Science and Technology for BCBEC.



Research Results Incorporated into Building Standards and Best Practices

Target 2002-03	HPO participates on National Building Code committees and in development of best practice guides and training courses
Actual 2002-03	**HPO representative on National Building Code Standing Committees (2) on Houses and Environmental Separation, Provincial Technical Discussion Forum on Building Code Issues, and CSA Strategic Steering Committee on Building Products & Systems. Results of HPO-funded windows study being considered by national windows standards committee.**
Future Targets 2003-04 2004-05 2005-06	Participation in federal and provincial processes to update the current building code and develop best practice guides and training courses

This measure looks at the effectiveness of the HPO in ensuring the results of research projects are incorporated into standards, codes and best practices.

The performance measure tracks the HPO's participation on national and provincial code committees, and involvement in the development of best practice guides and training courses.

The HPO promoted builder involvement in B.C. consultations on the National and B.C. Building and Fire Codes. This process was led by the Building Policy Branch, Ministry of Community, Aboriginal and Women's Services.

Results of the HPO-funded "Water Penetration Resistance of Windows – Study of Codes, Standards, Testing and Certification" is under consideration by the Canadian Standards Association A440 Committee.

Recovery of Homes Values Following Building Envelope Renovations

Target 2002-03	Collect baseline data
Actual 2002-03	**55%**
Future Targets	
2003-04	50% or more
2004-05	50% or more
2005-06	55% or more

analysing data for nearly 4,000 homes with repair loans in over 230 buildings

This measure tracks the improvement of assessed values of homes following the completion of building envelope renovations. It is calculated as the percentage of homes that have recovered 90% or more of the value of the cost of repairs in the assessed values of their homes.

The analysis is based on data for nearly 4,000 homes with repair loans in over 230 buildings in the coastal climate zone of B.C.

According to the B.C. Assessment Authority, assessed values are adjusted on an annual basis to reflect changes in market values of the homes, and takes into account such factors as property improvements or renovations and sales for comparable properties in the neighbourhood.

Assessment data offers the opportunity to track changes in home values including those that have not been put on the market or sold by owners.

Among the homes analyzed for this measure, the average pre-repair home value has risen from $104,500 to $126,100 post repair. The analysis is based on 2002 assessed values and includes all homes with completed building envelope renovations under the Homeowner's Reconstruction Loan program since 1998.

It should be noted that annual reporting for this measure includes a six-month month time lag due to the annual property assessment cycle, i.e., assessed values as of July 1 are used in the calculation.

Leveraging of Additional Research and Education Funding

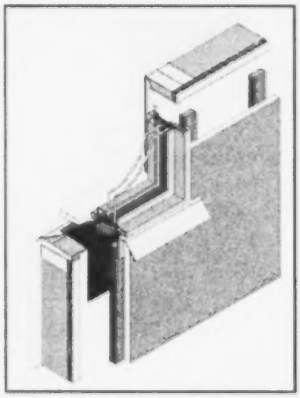
Target 2002-03	At least twice the amount invested by HPO leveraged through partnerships
Actual 2001-02	HPO investment represented 22% of total project funding
Actual 2002-03	**HPO investment represented 21% of total project funding**
Future Targets	
2003-04	For each year, at least twice amount invested by HPO leveraged through partnerships
2004-05	
2005-06	

This measure monitors the effectiveness of the HPO in leveraging additional resources for research and education initiatives with industry partners.

The target is to leverage at least twice the amount invested by the HPO through partnerships for projects that are completed or underway during the fiscal year.

Projects that were completed or underway represented an HPO funding commitment of $143,000. Our partners committed an additional $548,000 to these projects for a total financial commitment of $691,000.

The principal funding partner is Canada Mortgage and Housing Corporation. Other partners include BC Housing, industry associations, manufacturers and educational institutions.



Partnerships allow for pooled funding for projects like the Water Penetration Resistance of Windows study.

Performance Measures, Targets and Results cont'd

Research Results Disseminated

Target 2002-03 and 2003-04	During this 2-year cycle, 1 major symposium or publication and 12 educational sessions
Actual 2001-02	HPO and its partners presented B.C.'s first 1-day Building Envelope Research Symposium profiling all HPO research projects carried out to date.
Actual 2002-03	**HPO-funded research profiled at 9 industry educational sessions; 3 research papers with HPO funding profiled at 9th Canadian Conference on Building Science and Technology**
Future Targets 2003-04 2004-05 2005-06	During this 2-year cycle, 1 major symposium or publication and 12 educational sessions.

Recognizing the critical role of disseminating research results to industry and consumers, this measure focuses on the HPO's participation in major research symposia or publications, and the delivery of educational sessions.

Educational sessions are generally sponsored by industry associations and organizations that best know how to most effectively disseminate technical information to their members.

The HPO also continued to participate in Building Envelope Research Consortium, BC Building Envelope Council (BCBEC), and Canadian Home Builder Association technical and education & training committees as a means of disseminating research results.

Industry representatives joined forces to organize the 9th Canadian Conference on Building Science and Technology for BCBEC.

Research Results Incorporated into Building Standards and Best Practices

Target 2002-03	HPO participates on National Building Code committees and in development of best practice guides and training courses
Actual 2002-03	**HPO representative on National Building Code Standing Committees (2) on Houses and Environmental Separation, Provincial Technical Discussion Forum on Building Code Issues, and CSA Strategic Steering Committee on Building Products & Systems. Results of HPO-funded windows study being considered by national windows standards committee.**
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Results of the HPO-funded "Water Penetration Resistance of Windows – Study of Codes, Standards, Testing and Certification" is under consideration by the Canadian Standards Association A440 Committee.

HPO Publications

Visit www.hpo.bc.ca

For more information or for a copy of any of the following publications, please contact the Homeowner Protection Office (HPO) at 1-800-407-7757 or visit the Web site at www.hpo.bc.ca.

General Information

HPO Service Plan 2003-2006

Consumer Information

- Buying a New Home: A Consumer Protection Guide
- Options for Resolving Residential Construction Disputes
- Managing Major Repairs: A Condominium Owner's Manual
- Homeowner's Reconstruction Loan Program Guide (English and Chinese) and application package
- PST Relief Grant application package
- Understanding Home Warranties, Important Information for Homebuyers
- Highlights of the Leaky Co-operative Program
- Highlights of the PST Relief Grant Program
- Highlights of Notice to Mediate for Residential Construction Disputes
- Four-Step Approach to Managing a Major Repair
- Selecting a Building Envelope Consultant
- Selecting a Contractor
- Selecting a Lawyer
- Tendering the Building Envelope Renovation
- Building Envelope Renovation Costs and Timelines
- What is a Building Envelope
- Financing the Building Envelope Repair
- 2-5-10 Year Home Warranty Insurance
- Builder Liens, Obligations and Protections
- *Strata Property Act*, Responsibilities of Strata Councils

Residential Construction Sector Information

- Residential Builder Licence Application and Agreement
- Residential Builder Licence Renewal Application and Agreement
- Building BC newsletter
- Building Envelope Renovator Licence Application and Agreement
- Building Envelope Renovator Licence Renewal Application and Agreement
- Commission of Inquiry into the Quality of Condominium Construction in British Columbia Part 1, Part 2 Vol. 1, Part 2 Vol. 2 – Web site only
- Notice of Home Warranty form
- Home Warranty Disclosure
- How to Become a Licensed Residential Builder
- How to Become a Licensed Building Envelope Renovator
- Important Information for Owner-Builders
- List of Home Warranty Insurance Providers
- Home Warranty Disclosure

Completed Research Study

- Water Penetration Resistance of Windows
- Monitoring Performance of Rainscreen Wall Assemblies – Interim Report
- Building Envelope Bibliography
- High-Rise Envelope Performance in Coastal Climate BC
- A Building Envelope Test Hut in Coastal British Columbia: Feasibility Study
- External Moisture Control Defining Performance of Water Resistive Barriers – Interim Report
- Envelope Drying Rates Analysis
- Land Use Planning & Weather Protected Buildings, A Best Choices Guide for Local Government

Acts and Regulations

- *Homeowner Protection Act*
- Consolidated *Homeowner Protection Act* Regulation [B.C. Reg 29/99]
- *Homeowner Protection Act* Building Envelope Renovation Regulation and amendment
- Notice to Mediate (Residential Construction) Regulation [B.C. Reg. 152/99] – Web site only
- Highlights of the *Homeowner Protection Act* Regulation for Licensing and Mandatory Third-Party Warranty Insurance for New Residential Construction
- Highlights - *Homeowner Protection Act* Regulation for Licensing and Mandatory Third –Party Warranty Insurance for Building Envelope Renovations

Contact the HPO at
1-800-407-7757
for more information

Glossary of Terms

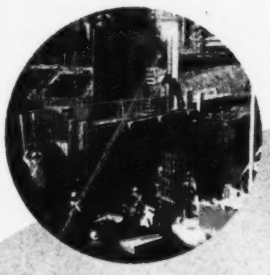
Building Envelope means the assemblies, components and materials of a building that are intended to separate and protect the interior space of the building from the adverse effects of exterior climatic conditions.

Building Envelope Renovation means construction work on a residential building:
a) to repair defects in the building envelope which allow unintended water penetration, or
b) to repair damage caused by unintended water penetration.

Building Envelope Renovator means a residential renovator who is licensed under Part 1 of the *Homeowner Protection Act* to engage in, arrange for or manage all, or substantially all, of a building envelope renovation.

Owner-Builder means a person who builds a single, detached home for their own personal use, not more than once in an 18-month period.

Residential Builder means a person who engages in, arranges for or manages all or substantially all of the construction of a new home, and includes a developer and a general contractor.



financial report

31 March 2003

Table of Contents

Management Discussion and Analysis 2

Financial Statements 3

- Auditor's Report 5
- Statement of Management Responsibility 6
- Balance Sheet 7
- Statement of Revenues and Expenditures and Deficit 8
- Statement of Cash Flows 9
- Notes to Financial Statements 10
- Schedule 1-Revenues and Expenditures by Program 16

Management Discussion and Analysis

Virginia Watson
Manager, Accounting

The purposes of the Homeowner Protection Office are to license residential builders and other persons required to be licensed under the *Act*; to monitor the performance of the home warranty insurance system; to carry out research and education respecting residential construction in British Columbia; and to administer the Reconstruction Program to provide financial assistance to eligible homeowners for home reconstruction. The HPO also administers the Provincial Sales Tax (PST) Relief Grant Program on behalf of the Province.

For the year ended March 31, 2003 the HPO's net income was $3.527 million. For the year ended March 31, 2002 we had a net loss of $483,000. We have once again met our objective to be financially self-sustaining on a year-over-year basis, excluding the Reconstruction Loan Program. When the results are considered excluding the Reconstruction Program, the net income for the year ended March 31, 2003 was $433,000 compared to the net income for the year ended March 31, 2002 which was $284,000.

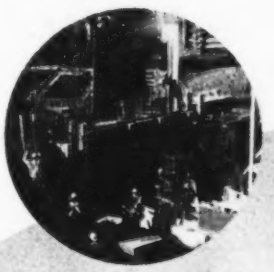
The Reconstruction levy revenues increased 47% to $7.150 million for the year ended March 31, 2003. This increase is a result of the growth in new home construction. The levy is collected on the construction of multi-unit homes in B.C.'s coastal climate zone and under the *Act* is to be used only for the purposes of the Reconstruction Program. The expenditures in the Reconstruction Program declined this year due to the reduction in the demand for Homeowner's Reconstruction Loans and the loans being paid off faster than anticipated. As there is such a strong housing market, homeowners are selling their homes and paying off their reconstruction loans. The Reconstruction Program expenditures reached their peak last year and we believe they will continue to decline as fewer new loan applications are received.

License fees collected increased 17% this year to $2.469 million from $2.114 million. The increase in fees is due to both the increased number of residential builders during the year and the growth in new home construction. Expenditures for the Licensing Program increased from $1.773 million in 2002 to $1.977 million for the year ended March 31, 2003.

The Research and Education program had expenditures of $288,000 during 2003. This is a slight increase over the previous year's expenditures. We have once again met our objective to leverage our contribution for research studies by having our partners invest at least twice the amount committed by the Homeowner Protection Office.

Provincial contributions for the PST Relief Grant program for the year ended March 31, 2003 increased by $955,000 over the previous year. This reflects the additional PST Relief Grants that were paid out this year over last year as more repairs on leaky homes are completed. Since the program was introduced in 1999, $7.5 million in grants have been approved. We will continue to see demand for this program as more repairs are completed on leaky homes.

This has been another year of growth and continued demand for the HPO's program areas as the residential construction sector activity increases, research is completed and disseminated to industry and consumers, and more leaky homes are repaired.



financial statements

31 March 2003

HOMEOWNER PROTECTION OFFICE

Report of the Auditor General of British Columbia

To the Board of Directors
of the Homeowner Protection Office, and

To the Minister of Community, Aboriginal and
Women's Services

I have audited the balance sheet of the *Homeowner Protection Office* as at March 31, 2003 and the statement of revenues and expenditures and deficit and the statement of cash flows for the year ended March 31, 2003. These financial statements are the responsibility of the Office's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Homeowner Protection Office* as at March 31, 2003 and the results of its operations and the changes in its cash flows for the year ended March 31, 2003, in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff

Victoria, British Columbia
April 25, 2003

Wayne Strelioff, CA
Auditor General

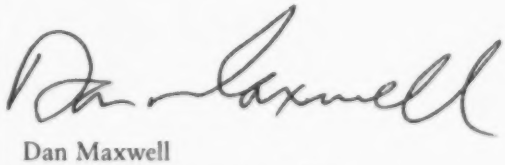
HOMEOWNER PROTECTION OFFICE

Statement of Management Responsibility

The financial statements of the Homeowner Protection Office (the "Office") have been prepared by management in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the notes to financial statements.

Management depends upon a system of internal controls that provide reasonable assurance, on a cost-effective basis, that the financial information is reliable and accurate. The Office's external auditors independently perform such tests of the system of internal controls as they consider necessary for the purpose of expressing their opinion on the financial statements.

The Audit and Finance Committee, which is comprised of directors who are not employees, oversees management's discharge of its financial reporting responsibilities. The committee meets periodically with management and the external auditors to discuss auditing, financial reporting and internal control matters. The external auditors have access to the Audit and Finance Committee without management's presence.



Dan Maxwell
Acting Chief Executive Officer

Virginia Watson
Manager, Accounting

April 25, 2003

HOMEOWNER PROTECTION OFFICE

BALANCE SHEET AS AT MARCH 31, 2003

	2003 ($000's)	2002 ($000's)
ASSETS		
CURRENT ASSETS		
Cash	$ 338	$ 353
Cash for reconstruction and PST programs	2,096	4,238
Due from Province of British Columbia (note 4)	19	26
Due from CMHC (note 1)	375	96
Accounts receivable	1,054	916
Prepaid expenses	22	42
Current portion of loans receivable	1,658	1,240
	5,562	6,911
LOANS RECEIVABLE (note 3)	21,346	15,266
CAPITAL ASSETS (note 5)	155	275
	$ 27,063	$ 22,452
LIABILITIES AND DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 786	$ 530
Loss provision for CMHC-insured loans (note 2d)	3,972	3,544
Due to Province of British Columbia (note 6)	25,249	24,849
	30,007	28,923
CONTINGENCIES (note 2d)		
COMMITMENTS (note 7)		
DEFICIT	(2,944)	(6,471)
	$ 27,063	$ 22,452

Approved by the Board:

Chair

Member

HOMEOWNER PROTECTION OFFICE

Statement of Revenues and Expenditures and Deficit

FOR THE YEAR ENDED MARCH 31, 2003

	2003 ($000's)	2002 ($000's)
Revenues		
Reconstruction levies	$ 7,150	$ 4,872
Federal contributions for Reconstruction Program	6,890	7,298
Provincial contributions	3,982	2,932
Loan discount recoveries	2,833	1,659
License fees	2,469	2,114
Interest	120	133
Donations and other	0	8
	23,444	19,016
Expenditures		
Reconstruction Program	13,867	14,690
PST Relief Grant Program	3,200	2,278
Licensing and registrar	1,977	1,773
Finance and administration	585	513
Research and education	288	245
	19,917	19,499
Income (Loss) (Schedule 1)	3,527	(483)
Deficit, beginning of year	(6,471)	(5,988)
Deficit, end of year	$ (2,944)	$ (6,471)

HOMEOWNER PROTECTION OFFICE

Statement of Cash Flows

FOR THE YEAR ENDED MARCH 31, 2003

	2003 ($000's)	2002 ($000's)
Cash flows from Operating Activities		
Cash received from:		
Residential builders for reconstruction levies	$ 7,006	$ 4,047
Government of Canada for Reconstruction Program	6,611	7,607
Homeowners for principal-only payments on loans	4,714	2,466
Province of British Columbia for programs	3,982	2,932
Residential builders for license fees	2,474	2,057
Interest	120	143
Partners in funding research and education activities	0	8
Cash paid to:		
Homeowners for reconstruction loans	(15,202)	(15,934)
Financial institutions for interest on CMHC-insured loans	(3,984)	(3,692)
Suppliers and employees	(3,844)	(3,320)
Homeowners for PST Relief Grants	(3,107)	(2,182)
Financial institutions for defaults on CMHC-insured loans	(652)	(609)
Province of British Columbia for loan interest	(578)	(811)
Cash flows used in operating activities	(2,460)	(7,288)
Cash flows from Investing Activities		
Purchase of capital assets	(28)	(116)
Cash flows used in investing activities	(28)	(116)
Cash flows from Financing Activities		
Province of British Columbia for PST program	51	10
Proceeds from borrowing	280	9,647
Cash flows from financing activities	331	9,657
Net (Decrease) Increase in Cash	(2,157)	2,253
Cash, beginning of year	4,591	2,338
Cash, end of year	$ 2,434	$ 4,591
Represented by:		
Cash	338	353
Cash for reconstruction and PST programs	2,096	4,238
	$ 2,434	$ 4,591

Notes to Financial Statements

FOR THE YEAR ENDED MARCH 31, 2003

1. General

The Homeowner Protection Office (the "Office") was created in 1998 under the *Homeowner Protection Act* S.B.C. 1998, c. 31 (the "*Act*"). The purposes of the Office are:

- to license residential builders and other persons required to be licensed under the *Act*;
- to carry out research and education respecting residential construction in British Columbia; and
- to administer the Reconstruction Program to provide financial assistance to eligible homeowners for home reconstruction.

Effective July 1, 1999, all persons who wish to carry on the business of a residential builder in British Columbia must obtain a licence from the Office's Registrar. Effective October 1, 2000, repair contractors who wish to perform specified building envelope renovations in British Columbia must obtain a licence from the Office's Registrar. The license fees collected fund all of the operations of the Office except for the Reconstruction and Provincial Sales Tax Relief Grant Programs. The Province provides a contribution to the Office to fund a portion of the costs of ensuring compliance with the *Act*. The research and education function has a mandate to disseminate information to the residential construction industry and to homeowners in areas such as cost effective building techniques, best practices for retrofitting housing, building code changes and consumer education.

The Reconstruction Program provides subsidized interest loans, no-interest loans and deferred payment loans to owners of homes with premature building envelope failure who are not able to finance or pay for repairs. A reconstruction levy is collected on residential units in multi-unit buildings constructed after July 1, 1999 in the coastal climatic zone. The Government of Canada through the Canada Mortgage and Housing Corporation (CMHC) provides a contribution to the Reconstruction Program equal to fifty percent of the Reconstruction Program expenditures net of interest revenue. The total contribution from the Government of Canada will not exceed $27.7 million.

The Office also administers the Provincial Sales Tax (PST) Relief Grant Program on behalf of the Province. The Province provides a contribution to the Office to cover the administration costs and grant payments of the program.

The expenditures and revenues of these programs are reported in Schedule 1.

2. Significant Accounting Policies

The accompanying financial statements are prepared in accordance with Canadian generally accepted accounting principles that are considered appropriate for the Office. The significant accounting policies are noted below.

a) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant areas requiring the use of management estimates relate to the determination of the present value of loans receivable, loan loss provision, and amortization of capital assets. Actual results could differ from the estimates.

b) Capital assets

Capital assets are recorded at cost and amortized on a straight line basis over their estimated useful lives as follows:

Computer software and hardware	Three years
Leasehold improvements	Over the lease term
All other capital assets	Five years

Assets costing less than $1,000 are expensed in the year of purchase.

c) No-interest loans and deferred payment loans

No-interest loans and deferred payment loans provided by the Office are concessionary loans in that no interest is charged to the homeowner. These loans are recorded at their net present value (net of grant component) less any provision required for doubtful collection. Net present value is determined by discounting no-interest loans over their terms and discounting deferred payment loans over 20 years at the provincial borrowing rate for equivalent terms. Present value discounts are recorded as grant expense. Principal repayments are first applied to the reduced loan balance (net present value) and then recorded as revenue (loan discount recoveries) when received.

d) Loss provision for CMHC-insured loans

Loans provided by financial institutions under the Reconstruction Program do not appear on these financial statements. However, the Office has indemnified CMHC for any claims that may be made against the CMHC insurance on these loans up to $250 million. The Office records a 4% loan loss provision on these loans.

e) Federal and provincial taxes

The Office is exempt from corporate income taxes and is not subject to the Goods and Services Tax.

3. Reconstruction Program

Under the *Act*, money paid to the credit of the Reconstruction Program must only be used for the purposes of the program.

Under the Reconstruction Program, financial assistance is provided to homeowners who cannot afford to pay for repairs to their homes with premature building envelope failure. The financial assistance is secured by mortgages registered against the title of the home to be repaired. This financial assistance is provided in the form of subsidized interest loans, no-interest loans or deferred payment loans as follows:

a) Subsidized interest loans through the first mortgage lender

i) Homeowner

Under agreements with financial institutions and CMHC, the Office approves loans to homeowners for repairs to homes with premature building envelope failure and issues CMHC insurance certificates for these loans. The loan is advanced by the financial institution that holds a first mortgage on the property and, as a consequence, does not appear on these financial statements. The homeowner makes monthly principal-only payments to the financial institution. The Office pays interest on the homeowner's behalf to the financial institution at the prime rate of the lender. This interest is reported as interest subsidy on Schedule 1.

ii) Housing Co-operatives

Under an agreement with CMHC, the Office approves loans to housing co-operatives with premature building envelope failure. The loan is advanced by CMHC who is also the first mortgage lender. The housing co-operative makes a monthly principal-only payment to CMHC. The Office pays interest on the housing co-operative's behalf to CMHC. While the repairs are underway and prior to the interest adjustment date (IAD), the Office pays interest at CMHC's Construction Floating Rate. At IAD, the interest rate on a loan is set for an initial five-year term to equal the bid yield of a five-year Government of Canada benchmark bond with approximately five years remaining in its term plus not more than 0.75 percent per annum, compounded semi-annually not in advance. This benchmark is also used to set the interest rate for the second and final five-year term. This interest is included in interest subsidy on Schedule 1.

The Office has not provided guarantees or indemnities for any of the loans to housing co-operatives. The only obligation of the Office with respect to these loans is to pay interest. Consequently, neither the loans nor a provision for losses appear on the balance sheet of the Office.

b) No-interest loans through the Office

In cases where there is no first mortgage or where the first mortgage lender refuses to provide a loan, the Office provides a no-interest loan to the homeowner. The homeowner makes principal-only payments to the Office. Loans advanced directly by the Office are not CMHC insured. The present value of these loans is included in loans receivable on the balance sheet.

c) Deferred payment loans through the Office

In circumstances where eligible homeowners qualify for no-interest loans under the Reconstruction Program, but whose income is such that they cannot afford at least $50 per month as a principal-only loan payment, the Office may approve a deferred payment loan. Deferred payment loans do not accrue interest and do not require any payments to be made for as long as the homeowner lives in the home. If the net sales proceeds of the home, after repaying other mortgages in priority to the deferred payment loan and paying reasonable legal and real estate expenses, are not sufficient to fully repay the deferred payment loan then the shortfall will be forgiven. The present value of these deferred payment loans is included in loans receivable on the balance sheet.

	Number of Loans	Total Financial Assistance ($000's)	Financial Assistance Reported on the Balance Sheet of the Office ($000's)
Subsidized interest loans			
- Homeowners (note 3a(i))	6,307	$ 156,075	$ -
- Housing co-operatives (note 3a(ii))	34	67,488	-
No-interest loans (note 3b)	1,240	36,417	36,417
Deferred payment loans (note 3c)	931	24,903	24,903
Total loans approved	8,512	284,883	61,320
Less:			
Loans approved but not yet issued			
- Homeowners		(34,571)	(12,195)
- Housing co-operatives		(53,877)	-
Present value discount		(18,002)	(18,002)
Loss provision for CMHC-insured loans		(3,972)	-
Loan write-offs		(1,948)	(171)
Loan repayments		(41,515)	(7,948)
Loans receivable		$ 130,998	23,004
Less: current portion			(1,658)
Loans receivable			$ 21,346

The present value of the interest to be paid in the future by the Office on the subsidized interest loans is $56 million.

Loans were approved, but not issued in instances where strata corporations or housing co-operatives had not yet signed contracts for the repair of the building envelope or had not yet passed the final special assessment for the cost of the repairs.

The 34 housing co-operatives contain 1,989 homes.

4. Due from the Province of British Columbia

Under an agreement with the Province of British Columbia (the Province), the Office invests the balance of its overnight bank deposits in the Province's offset interest program. Approximately one month after the interest is earned, this program pays interest to the Office at the prime rate of the Royal Bank of Canada less 1.75%.

5. Capital Assets

	March 31, 2003 ($000's)			March 31, 2002 ($000's)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer software	$ 152	$ (146)	$ 6	$ 18
Computer hardware	230	(207)	23	48
Office furniture and equipment	294	(257)	37	96
Leasehold improvements	173	(112)	61	95
Vehicles	40	(12)	28	18
Total	$ 889	(734)	$ 155	$ 275

6. Due to the Province of British Columbia

The Office has the authority to borrow up to a maximum of $75 million from the Province to fund operations and the Reconstruction Program. The Office's Board of Directors has approved borrowing to a maximum of $30 million.

Of the $25.249 million borrowed by the Office, $6.028 million is due April 29, 2003 with interest accrued at 2.72% per annum, $5.019 million is due on May 12, 2003 with interest accrued at 2.75% per annum, $7.067 million is due on June 3, 2003 with interest accrued at 2.72% per annum, $7.010 million is due on June 12, 2003 with interest accrued at 3.0% per annum and $125,000 has no fixed term of repayment and is without interest.

7. Commitments

The Office is committed in the normal course of business to paying interest on homeowners' behalf to financial institutions at the prime rate of the lender.

The Office has minimum rental obligations under operating leases for office space as follows:

Fiscal Year	($000's)
2004	$ 311
2005	$ 262
2006	$ -
2007	$ -
Total	$ 573

8. Related Party Transactions

In the normal course of operations the Office acquired goods and services from the Province and certain Crown corporations, under prevailing trade terms.

9. Employee Benefit Plans

The Office has a defined benefit plan and a defined retirement plan for all of its employees. In addition, the Office has defined health care plans for all employees and retirees.

The Office and its employees contribute to the Public Service Pension Plan in accordance with the *Public Sector Pension Plans Act*. The British Columbia Pension Corporation administers the Plan, including the payment of pension benefits on behalf of employers and employees to whom the *Act* applies. The Plan is a multi-employer defined benefit plan. The most recent actuarial valuation (March 31, 2002) has determined the Plan is in a surplus position. Effective January 1, 2001, the Public Service Pension Plan's management changed to a joint trusteeship whereby the management, risks and benefits are shared between employees and employers. Previously these matters were the sole responsibility of the Province of British Columbia.

Employees are also entitled to specific health care and termination benefits as provided for under collective agreements and terms of employment.

Defined contribution plan accounting is applied to these benefit plans as the Office has insufficient information to apply defined benefit plan accounting. As such, the cost of employee future benefits for these plans is recognized as an expense in the year contributions are paid.

HOMEOWNER PROTECTION OFFICE

SCHEDULE 1
REVENUES AND EXPENDITURES BY PROGRAM

FOR THE YEAR ENDED MARCH 31, 2003

	Reconstruction Program		PST Relief Grant Program	
	2003 ($000's)	2002 ($000's)	2003 ($000's)	2002 ($000's)
Revenue				
Reconstruction levies	$7,150	$4,872	$ 0	0
Federal contributions	6,890	7,298	0	0
Provincial contributions	0	0	3,232	2,307
Loan discount recoveries and other	2,833	1,659	0	0
License fees	0	0	0	0
Interest	88	94	7	11
	16,961	13,923	3,239	2,318
Expenditures				
Reconstruction loan grants	6,827	7,605	0	0
Interest subsidy	4,353	3,559	0	0
PST Relief Grants	0	0	3,107	2,182
Salaries and wages	490	627	67	67
Loss provision on CMHC-insured loans	1,103	1,766	0	0
Travel, office and other	282	196	7	10
Interest expense	613	655	0	0
Rent and utilities	67	93	12	11
Communications and printing	14	28	1	1
Amortization	30	51	5	6
Legal and professional fees	88	110	1	1
Research studies	0	0	0	0
Consumer and Industry Education	0	0	0	0
	13,867	14,690	3,200	2,278
Income (Loss)	$ 3,094	$ (767)	$ 39	$ 40

Licensing & Registrar		Finance & Administration		Research & Education		Total	
2003 ($000's)	2002 ($000's)	2003 ($000's)	2002 ($000's)	2003 ($000's)	2002 ($000's)	2003 ($000's)	2002 ($000's)
$ 0	0	$ 0	$ 0	$ 0	$ 0	$ 7,150	$ 4,872
0	0	0	0	0	0	6,890	$ 7,298
750	625	0	0	0	0	3,982	2,932
0	4	0	0	0	4	2,833	1,667
1,807	1,571	507	543	155	0	2,469	2,114
18	19	5	7	2	2	120	133
2,575	2,219	512	550	157	6	23,444	19,016
0	0	0	0	0	0	6,827	7,605
0	0	0	0	0	0	4,353	3,559
0	0	0	0	0	0	3,107	2,182
1,146	958	424	344	105	85	2,232	2,081
0	0	0	0	0	0	1,103	1,766
380	362	68	69	27	13	764	650
25	49	7	18	2	6	647	728
172	142	48	47	15	14	314	307
133	107	9	6	9	12	166	154
86	80	22	25	7	8	150	170
35	75	7	4	2	21	133	211
0	0	0	0	115	61	115	61
0	0	0	0	6	25	6	25
1,977	1,773	585	513	288	245	19,917	19,499
$ 598	$ 446	$ (73)	$ 37	$ (131)	$ (239)	$ 3,527	$ (483)

Homeowner
Protection Office

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